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DIRECTORATE OF
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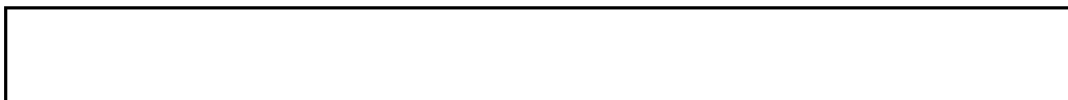
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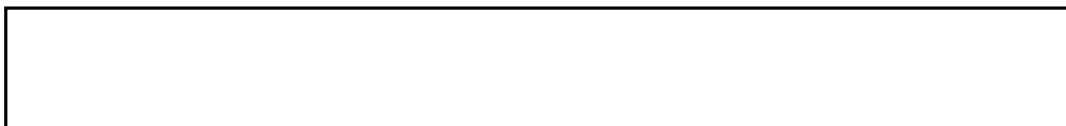
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*Arab States - Israel: President Nasir is trying to solidify Arab support for his acceptance of the US peace initiative.

The result of the Egyptian leader's meeting with his party executive over the weekend is not yet known, but the semiofficial Al Ahram has reaffirmed Cairo's intention to explore the US proposal and has fired off volleys of criticism at Arab states critical of Egypt's effort. Cairo, according to Al Ahram, accepted the US proposals because it thought there was a greater chance now of achieving total Israeli withdrawal. The article also maintained that Cairo stood by the demand for restoration of the rights of the Palestinians and would press for Israeli withdrawal from other occupied Arab territories prior to its withdrawal from Sinai.

This line will presumably be pursued at today's meeting of representatives of the Arab states in Libya. Although Iraq and Algeria--strongly critical of Egypt's move--have formally declared they will not attend, Syria is sending a delegation, as are the fedayeen. Presumably their attendance was arranged after a meeting of Egyptian and fedayeen leaders in Cairo. The Middle East News Agency meanwhile published Nasir's defense of Egypt's actions as contained in a stiff and recriminatory note sent to Iraqi President Bakr.

Moscow continues to manifest its strong political and military support for the UAR. Pravda minced few words on 1 August in condemning Iraq's "negative stand" with regard to Nasir's "peace initiative." Pravda took the Iraqi Baath Party leaders to task for their obstructionist position, which, it said, "does not contribute toward effective struggle against the aggressor."

In Jordan, the US Embassy reports that the initiative is now clearly with those favoring peace. It states that the fedayeen position is not arousing

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significant support, and describes the fedayeen anti-peace demonstration on 31 July as "unimpressive." The US Embassy in Beirut reports in addition that pro-peace sentiment in Lebanon has induced a note of caution among fedayeen leaders there.

In Israel, a cabinet committee continued over the weekend to draft a formal reply to the US proposals. Foreign Minister Eban in an interview on 1 August indicated that Israel's reply, like Nasir's, would be positive, but conditional. Eban repeated that Israel's frontier would differ from the present cease-fire lines, but said "the outlook would be bleak" if there were no direct Arab-Israeli talks. The right-wing Gahal party, teetering on leaving the government, makes its decision tonight. Its departure would leave Mrs. Meir with a governing majority of 76 out of 120 and, under Israeli law, would not require the formal reformation of the cabinet.

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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Laos: Pathet Lao envoy Souk Vongsak took a moderate line in the statement he made when he arrived in Vientiane on 31 July, but on that same night Communist forces in north Laos launched an unusually heavy attack on government positions.

In a communiqué released to the press shortly after his arrival, Souk noted the "numerous efforts" of the Lao Patriotic Front to reach a peaceful settlement in the past and expressed the hope that his present mission would end in success. The Pathet Lao statement contained none of the usual polemics and made no reference to the customary demand for a US bombing halt as a precondition for talks. Souk confined his remarks to the prepared communiqué.

Shortly after Souk's arrival, however, the extended lull in the fighting in north Laos was abruptly broken by an assault by 200 to 300 North Vietnamese troops against a Lao guerrilla battalion manning the perimeter defenses at Tha Tam Bleung. The enemy force overran all of the battalion's positions, wounding 59 of the guerrillas and leaving an unknown number dead. Latest reports indicate that 30 government troops are missing, including the battalion commander.

It is possible that the Communist attack near Tha Tam Bleung had no connection with the opening of preliminary talks between the Pathet Lao and the government. The Communists have periodically made a show of strength southwest of the Plaine des Jarres to forestall any effort by General Vang Pao's forces to return to the offensive in this critical area. But the severity, as well as the timing, of the Tha Tam Bleung raid suggests that this was more than a routine military maneuver precipitated by local tactical considerations.

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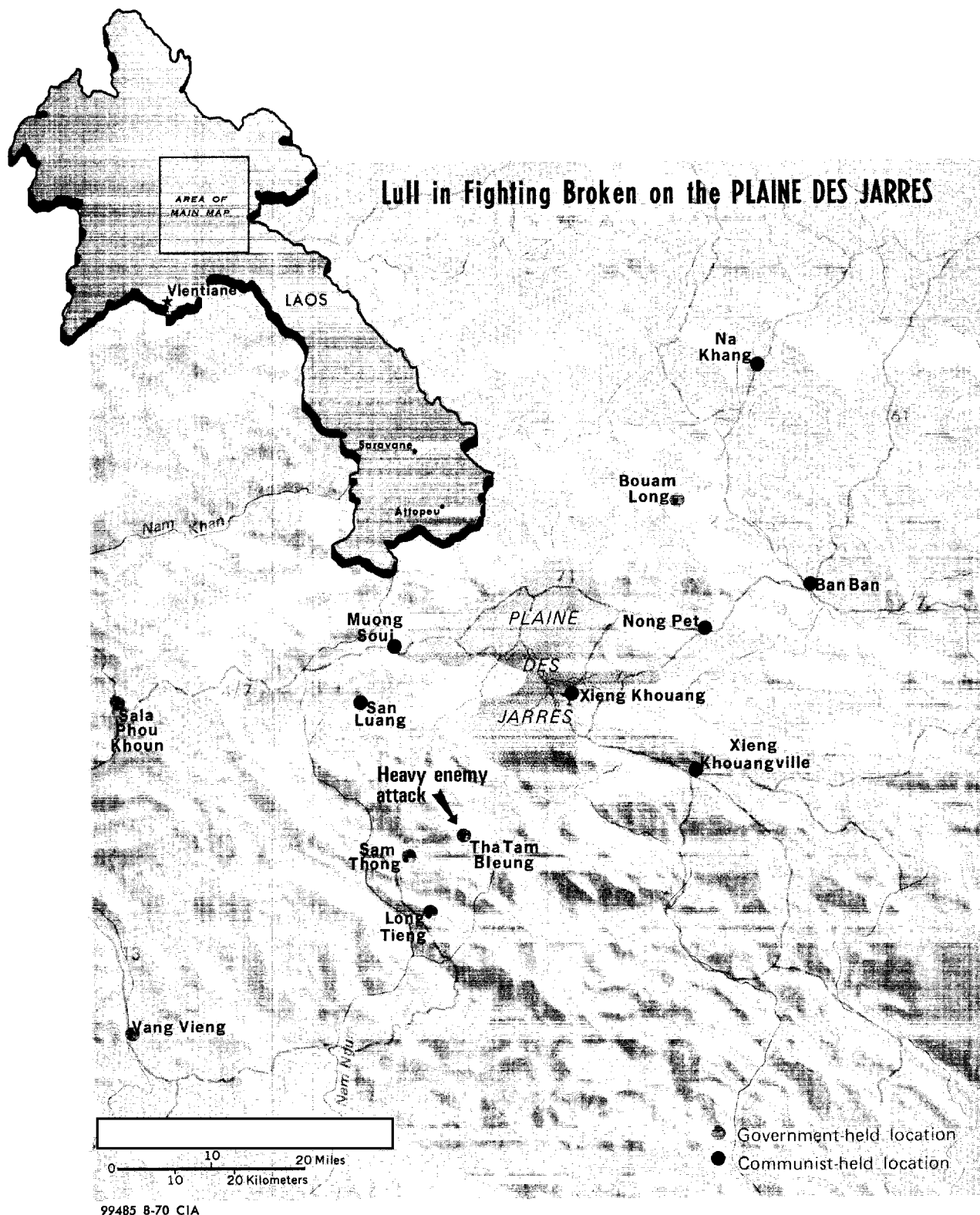
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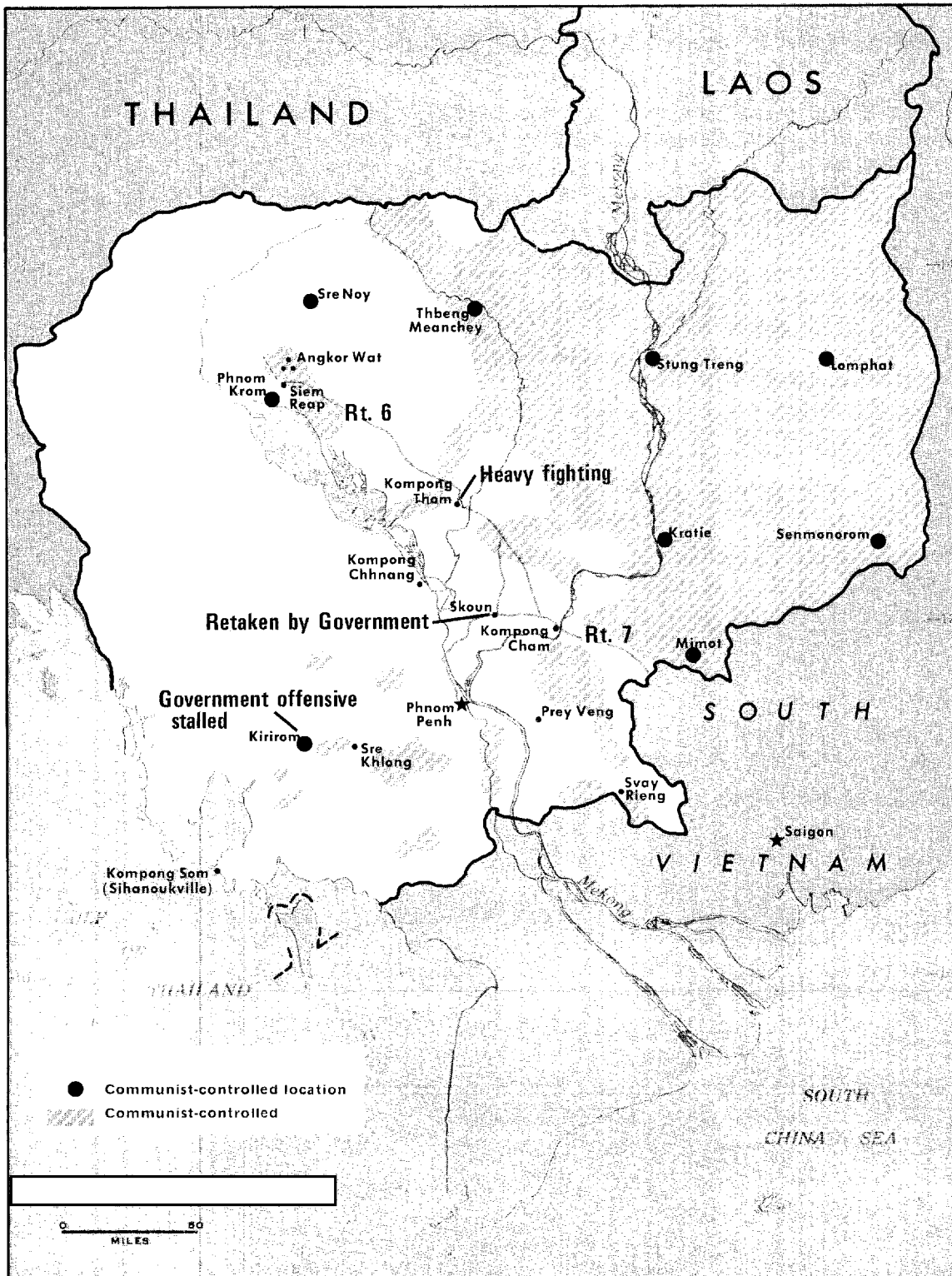
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Cambodia: Current Situation



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Cambodia: Heavy fighting continues in Kompong Thom.

Communist forces yesterday pressed their renewed offensive to take the key northern city. Enemy troops reportedly were in control of many of the city's buildings and were making a strong ground and mortar assault on its southern portions. Two government battalions in the northern sector were pinned down by enemy fire, and efforts by another battalion to link up with them were unsuccessful.

Initial casualty reports indicate that thus far 30 government soldiers have been killed and 62 wounded. Communist losses are unknown.

The US defense attaché in Phnom Penh reported that government troops at Kompong Thom were running low on food and ammunition on 1 August and their morale was declining. Intense Communist ground fire has prevented aerial resupply. Continuous allied air strikes probably are the main reason the enemy has not been able to overrun the city. Phnom Penh apparently has not yet made any plans to send reinforcements to Kompong Thom, despite urgent requests from the local commander.

Meanwhile, in adjacent Kompong Cham Province, a Khmer Krom reinforcement battalion from Kompong Cham city apparently has retaken the town of Skoun, at the junction of Routes 6 and 7. Skoun was occupied by the Communists on 1 August after government troops there were forced to retreat because they ran out of ammunition. The attack on Skoun may have been the first step in an enemy effort to increase pressure on Kompong Cham city. Kompong Cham received light harassing fire on 1 August, but no damage or casualties were reported.

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In the west, the government offensive to re-take Kirirom is still stalled pending the arrival of an additional five battalions of reinforcements from Phnom Penh. Elements of one brigade that was to spearhead the counterattack refused to participate in the operation, claiming they lacked proper equipment. They apparently are returning to Phnom Penh. Southeast of Kirirom, enemy elements kept up their harassment of government positions along Route 4 near Sre Khlong. Government clearing operations and air strikes in the Sre Khlong area apparently have not been effective, but the situation there yesterday was reported to be calm. [REDACTED]

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South Vietnam: President Thieu's broadcast to the nation on 31 July appears to have been designed primarily to stop growing speculation that a cease-fire might be announced soon.

Thieu again indicated that he would be willing to consider accepting a standstill cease-fire before an over-all political settlement is negotiated, but he laid great stress on the need first to negotiate the conditions for such a cease-fire. He again asserted that there must be effective supervision and a tight control apparatus to prevent the Communists from reinforcing and resupplying their forces and to prevent terrorist activity.

The President also stressed that a standstill cease-fire would not involve ceding political control of areas where enemy forces might be strong. Instead, a cease-fire would be a way to stop the killing until an over-all settlement is arranged that would allow the Communists to participate in internationally supervised elections. A cease-fire could only be justified, Thieu said, if there were real progress in the negotiations. He made it amply clear, however, that he expects no such progress soon.

Thieu clearly wished to reassure the armed forces and the populace at large that the government is not about to drop its guard. He probably also wanted to head off any tendency among security forces to avoid battle with the enemy in the belief that a cease-fire was imminent. Moreover, some of his language seems to have been intended to caution political leaders, including candidates in the upcoming senate elections, against playing to the war-weariness of the population by developing a peace campaign.

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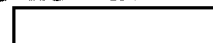
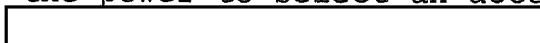
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Lebanon: Ex-president Shihab reportedly has decided to withdraw from the running for the presidency and not to accept the position even if elected by the parliament.



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Although Shihab was considered the front runner, his election to the Lebanese presidency was not completely assured. His announcement may, therefore, have been a tactical ploy intended to force his supporters to close ranks and also to compel the Egyptians, whose influence with Muslim parliamentary deputies is always important, to make greater efforts on his behalf than they have put forth so far. If, however, Shihab seriously intends not to be a candidate, the presidential election--which must be held before 23 August--would be thrown wide open because it is doubtful that he has the power to select an acceptable stand-in.



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India: Recently tightened controls on large private domestic firms and foreign-owned companies may hamper industrial growth.

Private domestic firms with assets of over \$6.7 million and all foreign-owned firms will no longer be permitted to produce beyond their licensed capacity. This new edict rescinds the 1966 "liberalization" measure that allowed these firms to produce up to 125 percent of licensed capacity as well as to diversify output to ensure the fullest utilization of their plants. Liberalization, however, never had time to take effect because of the industrial recession that hit India in 1966-67 and because industrial production in 1969 still had not reached the growth rates of the early 1960s.

This decree is the latest in a number of licensing and other control measures announced since February to limit the expansion of the large and rapidly growing private firms and to encourage small-scale firms. The measures are part of the government's efforts to limit profits and accumulations of wealth in the private sector and to increase employment in small industry. Industrial growth may be slowed, however, because the restrictions apply to the most dynamic sector of Indian industry.

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Hungary: Budapest has received a green light from the Soviets to proceed with its plans to allow direct Western investment in certain Hungarian enterprises.

According to the chairman of the Hungarian Foreign Trade Bank, Hungary will not permit Western equity in "delicate" industries, but will permit investments in joint ventures in Hungary that will upgrade technology and increase Budapest's hard-currency earning exports. The Hungarians presumably will insist on holding majority control of any such ventures and will expect Western investors to earn their profits through hard-currency exports.

New regulations updating a law passed in the 1870s are expected to be issued in this field later in the year. Meanwhile, negotiations involving co-ownership with two US firms--one producing tractors and automobiles and the other operating a computer data center--are continuing.

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Uruguay: The extreme leftist Tupamaros continue to hold a wounded American AID official and a Brazilian diplomat abducted on 31 July as well as an Uruguayan judge taken three days earlier.

The release of all political prisoners has been demanded for the return of the two foreigners. The government, however, has not responded to the demand and an impasse could easily develop if President Pacheco sticks to his position of "no negotiations with kidnapers." A statement by the vice president yesterday has stirred speculation in the press that the government might be considering general amnesty for all political prisoners to avoid the appearance of negotiating with the Tupamaros.

An obstacle to the possible release of the prisoners is that jurisdiction over them is divided between the executive and judicial branches of government. Those already convicted are controlled by the judicial branch and, the Supreme Court is determined not to release prisoners in exchange for the kidnaped foreigners.

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NOTE

Central America: Honduras has been persuaded to remain in the Central American Common Market (CACM), at least temporarily. The ministers of economy of the five CACM countries met in Managua last week and, with difficulty, agreed on several proposals for getting the Common Market machinery moving again. Consideration of the restructuring demanded by Honduras has been postponed until this month. Although some delegates are optimistic over the accomplishments of the Managua meeting, at least one believes that a real crisis has merely been postponed.

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